

Regional Pulse

Chamber of Commerce and Industry WA
July 2021



Chamber of Commerce
and Industry WA

Western Australia's regions are the engine room of the WA economy, supporting a range of key export industries, including resources, agriculture and tourism. In this report, we provide regional breakdowns of key results from the June 2021 *CCIWA Business Confidence Survey*. We also take a deeper dive into WA's skills challenge, providing unique insights into the far-reaching impacts of labour shortages on regional businesses.

While every measure has been taken to ensure data reliability, particular care should be exercised when using regional estimates as they are subject to smaller sample sizes.

Pulse Check

The Outlook

Confidence by Region (WA)	Short-Term Conditions (3-Months)			Longer-Term Conditions (12-Months)		
	Stronger	Weaker	About the same	Stronger	Weaker	About the same
South West	41%	14%	43%	54%	14%	29%
Goldfields-Esperance	63%	13%	25%	75%	0%	25%
Wheatbelt	54%	15%	31%	38%	15%	46%
Mid-West/Gascoyne	54%	0%	46%	69%	15%	15%
Pilbara	70%	3%	27%	80%	3%	17%
Kimberley	83%	17%	0%	67%	17%	17%
WA Regions	61%	11%	26%	52%	11%	36%
Perth and Peel	61%	7%	30%	68%	6%	23%

On average, a higher proportion of businesses in every WA region are expecting stronger conditions over both the short and longer-term compared to those expecting weaker conditions.

Looking to the next three months, six out of ten (61%) businesses in regional WA expect conditions to strengthen - almost six times the proportion expecting conditions to worsen (11%).

Conditions are expected to continue strengthening over the longer term. Just over half (52%) of regional businesses anticipate conditions to strengthen over the next twelve months, while only 11 per cent expect conditions to worsen. The remaining 36 per cent expect no change.

Breaking down the short-term outlook:

- Businesses in the Kimberley (83%) and Pilbara (70%) are most optimistic, with the vast majority anticipating conditions to improve over the next three months.
 - For businesses in the Pilbara, this reflects ongoing strength in the mineral resources sector. As outlined in the June 2021 edition of the *CCIWA Business Confidence Survey*, strength in the mining sector is the primary factor driving business confidence across the WA economy.
 - For businesses in the Kimberley, the bump in short-term confidence may reflect the end of the 'wet' season. At the same time, however, more than 80 per cent of businesses in this region are struggling to fill a skilled occupation, and according to the September 2020 edition of the *CCIWA Business Confidence Survey*, are more reliant on international tourists than other WA regions.
- In contrast, businesses in the South West are less optimistic about the next three months. Just under half (41%) of businesses in this region are expecting stronger conditions next quarter, while two out of five (43%) are expecting no change. The remaining 14 per cent anticipate conditions to worsen.

Barriers to Business

What do you see as a barrier to growing your business in the year ahead?	Barriers to Business*							
	Availability of skilled labour	Weak demand	Competitors (foreign and online)	Rising operating costs	Difficulty accessing new finance from banks	International trade tensions	Uncontrolled outbreak of COVID-19	No barriers
South West	63%	12%	12%	64%	7%	10%	49%	2%
Goldfields-Esperance	81%	0%	0%	44%	13%	0%	19%	19%
Wheatbelt	77%	15%	8%	69%	0%	31%	38%	8%
Mid-West/Gascoyne	92%	0%	15%	38%	8%	8%	62%	0%
Pilbara	97%	3%	0%	57%	0%	17%	40%	0%
Kimberley	100%	0%	17%	33%	33%	17%	17%	0%
WA Regions	76%	8%	10%	58%	8%	11%	43%	4%
Perth and Peel	80%	10%	16%	56%	8%	9%	44%	1%

* 'Other' responses have been omitted from the table. As such, row sums may not equal 100 per cent.

Nearly four out of five (76%) regional businesses identified skills shortages as a barrier to growing their business over the coming year, slightly less than those in Perth and Peel (80%).

Concerns around skills shortages were most acute in the Kimberley (100%), Pilbara (97%) and Mid-West/Gascoyne (92%). Businesses in these regions continue to face difficulty attracting both seasonal and skilled workers – particularly those that rely on international and interstate migration.

Rising operating costs was identified as a barrier to growth by almost three out of five (58%) regional businesses, including seven out of ten (69%) in the Wheatbelt and around two out of three (64%) in the South West. Businesses in the construction, agricultural and manufacturing industries have reported rising material and equipment costs in recent months.

The possibility of an uncontrolled outbreak of COVID-19 in WA continues to weigh on the minds of regional businesses, with 43 per cent identifying this factor as a barrier to growing their business in 2021.

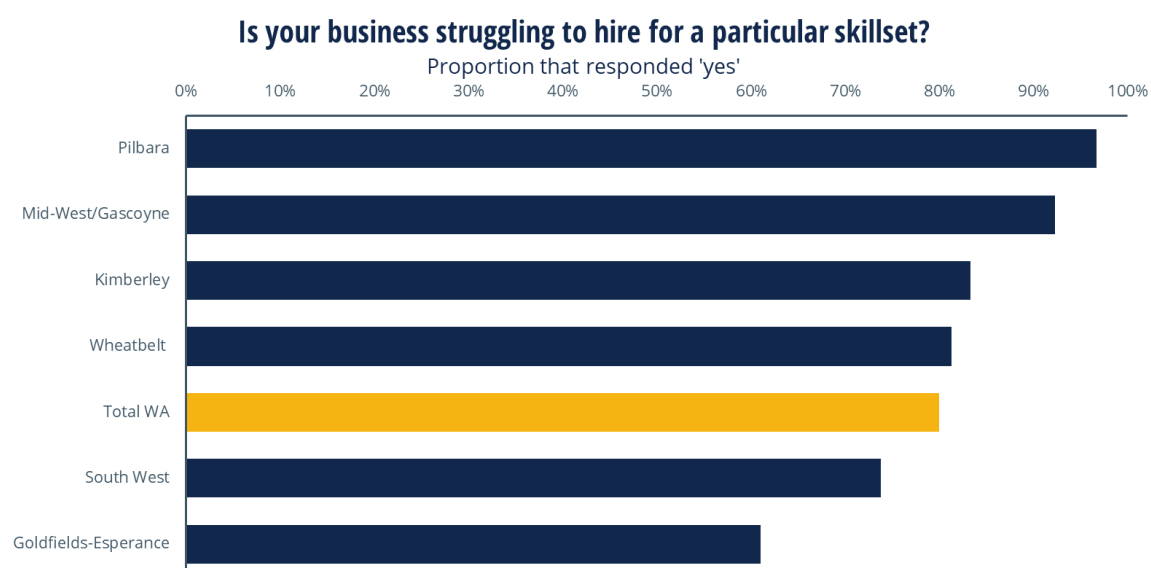
Almost one out of three (31%) businesses in the Wheatbelt identified international trade tensions as a barrier to growth over the coming year, which primarily reflects ongoing disputes with our largest trading partner.

Worker Shortages in Regional WA

In this edition of *Regional Pulse*, we take a deep dive into WA's skills crisis and its impacts on regional businesses.

All up, four out of five (78%) regional businesses identified they are struggling to fill a skilled occupation – up from 59 per cent in the previous quarter.

- Businesses in the Pilbara (97%), Mid-West/Gascoyne (92%) and Kimberley (83%) regions were mostly likely to identify that they are struggling to fill a skillset.
- Other regions with a relatively higher proportion of businesses finding it difficult to bring on skilled workers include the Wheatbelt (81%) and South West (74%)



Top three occupations in demand by WA region	Perth & Peel	South West	Goldfields-Esperance	Wheatbelt	Mid-West/Gascoyne	Pilbara	Kimberley
1	Fitters	General Farm Workers	Drill and Blast Engineers	Boilermakers	Mechanics	Fitters	Mechanics
2	Boilermakers	Chefs	Fitters and Shotfirers	Plant Operators	Hospitality Workers	Truck drivers	Farm workers
3	Electricians	Carpenters	Hospitality workers	Technicians	Riggers	Drillers	Nurses

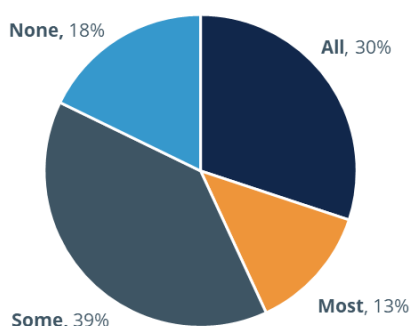
Many of these positions require prior training and/or experience.

Regional businesses are, on average, looking to fill positions that require at least 2.8 years of training and/or experience. Breaking it down by industry, businesses in the Resources, Construction and Manufacturing sectors are looking to fill roles with relatively higher levels of expertise, while Real Estate and Food Services are more likely to seek workers with lower levels of training and/or experience.

Unsurprisingly then, only 30 per cent of regional businesses expect to fill **all** of these roles locally, while around two out of five (18%) expect they will be unable to fill any roles with local workers.

Can your business fill the role(s) locally?

Regional WA

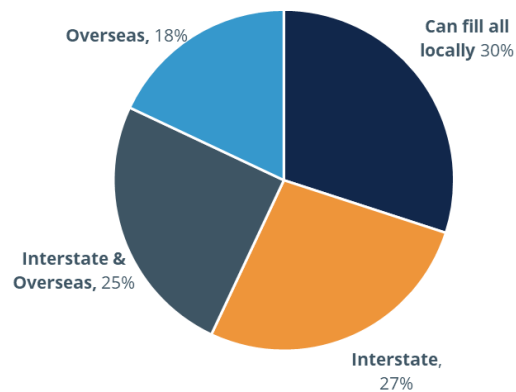


So, where do businesses in regional WA consider the best option for sourcing workers is, if they are unable to fill all roles locally?

- Almost one out of three (30%) consider interstate as their best option, including six out of ten (60%) in the Kimberley and around two out of five (38%) in the Pilbara.
- One out of five (18%) consider overseas as their best option to source skilled workers, including one out of three (33%) businesses in the Mid-West/Gascoyne and one out of five (20%) in the Kimberley and Wheatbelt.
- Around one out of four (26%) will look to both domestic and international markets.
- This implies that until there is access to overseas workers, at least one in four regional jobs will go unfilled.

Best option for sourcing workers

Regional WA



The impacts of skills shortages extend far beyond a quieter workplace.

- Two out of three (67%) regional businesses reported that shortages are increasing pressure on existing staff. Pressure appears greatest among businesses in the Mid-West/Gascoyne (100%), Kimberley (83%), and Goldfields-Esperance (81%).
- Around two out of five are experiencing higher training/onboarding costs (44%), increased risk of substandard product and/or service delivery (38%) and poor staff retention (38%).
- One out of three (33%) businesses in the Kimberley are unable to apply for tenders or new project opportunities, while project delays are most common in the Pilbara (43%), South West (33%) and Goldfields-Esperance (25%).
- Regional businesses are in turn concerned about reputational impacts, with 40% indicating this is weighing on their minds. In line with the concerns around project delays above, reputational concerns are high in the Pilbara (53%), South West (38%) and Goldfields-Esperance (38%).

So, how are regional businesses responding?

- The majority (54%) are investing in training new employees, which includes taking on more apprentices and trainees. Businesses in the Kimberley (67%), Pilbara (60%) and South West (57%) are most likely to be ramping up their training efforts.
- One out of two (49%) are upskilling existing employees, including two out of three (67%) in the Pilbara and one out of two (50%) in the Goldfields-Esperance.
- A similar proportion (48%) are boosting their employees' base wage, including two out of three (67%) in the Kimberley and Pilbara. At the same time, around 11 per cent of businesses are providing sign-on bonuses or other incentives to new employees.
- Around one out of four (28%) are turning down offers for new work (e.g., tenders), including half (50%) in the Kimberley and 25 per cent in the Goldfields-Esperance.

Labour costs

Expectations by Region (WA)	Labour Costs					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	1%	31%	68%	0%	23%	77%
South West	4%	38%	59%	2%	41%	56%
Goldfields-Esperance	0%	38%	63%	0%	38%	63%
Wheatbelt	0%	46%	54%	0%	23%	77%
Mid-West/Gascoyne	0%	23%	77%	0%	31%	69%
Pilbara	0%	20%	80%	0%	17%	83%
Kimberley	0%	33%	67%	0%	33%	67%
Total	1%	35%	64%	1%	29%	71%

More than two out of three (71%) WA businesses are anticipating labour costs to increase over the next three months – **up 17 percentage points since last quarter** - while one out of three (29%) expect no change. Only 1 per cent expect wage pressures to ease over the coming quarter.

Businesses that expect labour costs to rise are more likely to operate in the Pilbara (83%), Wheatbelt (77%), Mid-West/Gascoyne (69%) and Kimberley (67%) regions. As mentioned, businesses in these regions are most likely to be experiencing skilled labour shortages. They are also most likely to be boosting their employees' base wage in response.

Production

Expectations by Region (WA)	Production					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	14%	33%	53%	8%	34%	58%
South West	17%	36%	47%	20%	46%	34%
Goldfields-Esperance	13%	31%	56%	0%	19%	81%
Wheatbelt	38%	54%	8%	38%	46%	15%
Mid-West/Gascoyne	15%	38%	46%	0%	54%	46%
Pilbara	7%	40%	53%	3%	33%	63%
Kimberley	0%	50%	50%	17%	50%	33%
Total	15%	36%	50%	11%	37%	52%

More than one out of two (52%) WA businesses are planning to ramp up production over the next three months, including 44 per cent of businesses in regional Western Australia.

Businesses most likely to increase production over the coming quarter operate in the Goldfields-Esperance (81%), Pilbara (63%) and Mid-West/Gascoyne (46%). This likely reflects expectations that demand for Western Australian mineral commodities, like iron ore and gold, will remain strong over the coming months.

Profit margins

Expectations by Region (WA)	Profit Margins					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	42%	38%	20%	36%	41%	22%
South West	37%	39%	24%	39%	45%	16%
Goldfields-Esperance	40%	33%	27%	6%	25%	69%
Wheatbelt	62%	38%	0%	54%	46%	0%
Mid-West/Gascoyne	17%	58%	25%	38%	54%	8%
Pilbara	32%	44%	24%	32%	46%	21%
Kimberley	33%	50%	17%	33%	50%	17%
Total	40%	41%	20%	36%	43%	21%

The COVID-19 pandemic has damaged business profits across the State. Despite large levels of government stimulus and the progressive reopening of the domestic economy, twice as many WA businesses reported that their profit margins had declined (40%) over the June quarter than improved (20%).

Almost two out of five (37%) businesses in regional WA reported a decline in profitability over the past three months, slightly less than those in the Perth and Peel (42%).

Looking ahead, the profit outlook for WA's regions remains relatively subdued. A higher proportion of businesses in every region except the Goldfields-Esperance are expecting profit levels to fall over the next three months, compared to those anticipating profits to rise.

As mentioned, the majority of regional businesses have identified rising operating costs as a barrier to growing their business over the coming year, which may in turn be keeping a lid on profit expectations.

Level of credit and debt

Expectations by Region (WA)	Level of Credit or Debt					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	9%	72%	20%	6%	69%	25%
South West	14%	68%	18%	5%	76%	19%
Goldfields-Esperance	7%	67%	27%	7%	53%	40%
Wheatbelt	0%	46%	54%	0%	54%	46%
Mid-West/Gascoyne	17%	67%	17%	15%	77%	8%
Pilbara	8%	73%	19%	7%	59%	33%
Kimberley	0%	100%	0%	0%	83%	17%
Total	9%	71%	20%	5%	71%	24%

While rising debt levels can be an indication of future expansion plans, it can also reflect increased financial stress as businesses look to maintain operations by taking on short-term debt.

Around one out of five (21%) businesses in regional WA increased their debt or credit levels in the June quarter. Looking ahead to the next three months, 25 per cent are anticipating their debt or credit levels to rise.

Businesses most likely to take on additional debt operate in the Wheatbelt (46%), Goldfields-Esperance (40%), and Pilbara (33%) regions. Fewer businesses in the Mid-West/Gascoyne, Kimberley and South West regions are expecting their debt levels to rise next quarter. On the whole, most regional businesses (69%) are expecting their debt or credit levels to remain stable over the next three months.

Capital Expenditure

Expectations by Region (WA)	Capital Expenditure					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	7%	58%	35%	5%	51%	45%
South West	0%	69%	31%	7%	57%	35%
Goldfields-Esperance	14%	57%	29%	0%	53%	47%
Wheatbelt	8%	58%	33%	15%	54%	31%
Mid-West/Gascoyne	9%	30%	61%	8%	46%	46%
Pilbara	3%	48%	48%	10%	28%	62%
Kimberley	10%	46%	44%	0%	50%	50%
Total	6%	49%	45%	5%	52%	43%

More than two out of five (42%) businesses in regional WA plan to increase capital expenditure over the next three months, up 4 percentage points since last quarter. Businesses most likely to ramp up their capital expenditure operate in the Pilbara (62%), Kimberley (50%), and Goldfields-Esperance (47%). Igniting the confidence of businesses to invest will be critical to Western Australia's sustained economic recovery.

Employment

Expectations by Region (WA)	Employment					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	14%	27%	59%	4%	35%	61%
South West	18%	42%	40%	16%	48%	37%
Goldfields-Esperance	6%	38%	56%	0%	25%	75%
Wheatbelt	38%	46%	15%	33%	25%	42%
Mid-West/Gascoyne	8%	46%	46%	15%	46%	38%
Pilbara	7%	17%	77%	7%	21%	72%
Kimberley	33%	17%	50%	0%	60%	40%
Total	14%	33%	53%	8%	38%	55%

WA's jobs market is running red hot. There are now more Western Australians employed than before the pandemic and job ads for mining-related occupations have soared to levels not seen since the last mining boom. What sets 2021 apart from the previous mining boom, however, is that this time around we are unable to satisfy rising skilled labour demand by tapping into overseas labour markets. The upshot of this, as outlined on Page 4, is that skills shortages are spreading rapidly across WA's regional economy.

Just under half (47%) of regional businesses boosted their staff levels over the past three months, while around 37 per cent recorded no change to their workforce. Businesses in the Pilbara (77%), Goldfields-Esperance (56%), South West (50%) and Kimberley (50%) regions recorded the strongest rise in employment levels last quarter.

Looking ahead to the next three months, businesses remain optimistic about future employment opportunities – particularly those located in the Goldfields-Esperance, Pilbara and Kimberley regions.